

Message Text

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PAGE 01 THE HA 00273 181301Z

53

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 AID-20 COME-00 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02 FEA-02

SCI-06 INT-08 NEA-10 AF-10 IO-14 DRC-01 /218 W

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R 181214Z JAN 74

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 2773

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L THE HAGUE 273

STATE PASS ALSO TO T/IEP

E.O. 11652: GDS

TAGS: ENRG, EFIN, ECON, OECD, NL

SUBJECT: T/IEP: FEBRUARY 11 FOREIGN MINISTERS MEETING
ON INTERNATIONAL ENERGY PROBLEMS

REF: STATE 007324

SUMMARY: IMPACT OF OIL CRISIS ON GON ECONOMIC POLICY AND
PERFORMANCE HAS NOT BEEN PRONOUNCED THUS FAR. DUTCH NOW
PERCEIVE INFLATION AND UNEMPLOYMENT (IN THAT ORDER) AS MAIN
CONCERNS AND ARE TAKING STEPS IN FISCAL AND PRICE CONTROL
FIELDS TO ADDRESS THESE PROBLEMS. FUTURE OUTLOOK IS UNCER-
TAIN BUT NOT ALARMING. END SUMMARY.

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PAGE 02 THE HA 00273 181301Z

1. FOR DATA ALREADY REPORTED ON IMPACT OF OIL CRISIS ON

DUTCH ECONOMY AND GON POLICIES SEE HAGUE 5563, HAGUE 0097, HAGUE A-238 AND HAGUE A-001. THIS MESSAGE WILL ADDRESS LATEST DEVELOPMENTS AND RESPONSIBLE DUTCH THINKING TO EXTENT IT HAS EVOLVED AND BEEN COMMUNICATED TO US.

2. MONETARY POLICY: AS FAR AS WE CAN ASCERTAIN, ENERGY SITUATION HAS NOT YET IMPACTED DIRECTLY ON DUTCH MONETARY POLICY. AS FACTOR IN IMPORT PRICE RISE, OF COURSE, IT ADDS TO NUMBER ONE PROBLEM OF INFLATION WHICH MONETARY POLICY IS CURRENTLY SEEKING TO MITIGATE, BUT IT ALSO THREATENS TO CREATE NEW PROBLEM OF EXCESSIVE UNEMPLOYMENT. GON WOULD LIKE TO REDUCE INTEREST RATES TO COMBAT COST-PUSH INFLATION AND ENCOURAGE FIXED INVESTMENT BUT IS RESTRAINED BY FEAR OF CAPITAL OUTFLOW TO HIGH INTEREST RATES IN NEARBY MARKETS. RESULT IS TO LOCK LOCAL INTEREST RATE TO GERMAN TREND AND THUS DEPRIVE GON OF MONETARY POLICY OPTIONS.

3. FISCAL POLICY: COST-PUSH INFLATION PLUS INCIPIENT UNEMPLOYMENT POSES SIMILAR DILEMMA TO FISCAL POLICY. TO RESTRAIN INFLATION GON MUST RESTRAIN BUDGETARY EXPENDITURE, BUT TO MEET POSSIBLE UNEMPLOYMENT DUE TO ENERGY SHORTAGE AND RELATED UNCERTAINTIES IT MUST HAVE LIQUID FUNDS FOR UNEMPLOYMENT BENEFITS AND JOB-CREATING PUBLIC WORKS. IN DECISION ANNOUNCED JAN 16, GON "FROZE" EXPENDITURES TOTALLING FL 750 MILLION IN CY 74 BUDGET TO REDUCE MONEY SUPPLY AND CREATE CONTINGENCY RESERVE. MAIN VICTIMS ARE HIGHWAY, DEFENSE AND EDUCATION BUDGETS. WITH INFLATION GROWING, THIS FREEZE MAY BECOME PERMAFROST.

4. PRICES AND INCOMES POLICY: WE UNDERSTAND FROM AUTHORITY THAT MAJOR DECISION IN THIS AREA WILL BE ANNOUNCED JAN 19. OUR GUESS IS THAT GON WILL USE PRICE CONTROL AUTHORITY IT HAS LONG POSSESSED (RECENTLY BUTTRESSED BY EMERGENCY POWERS ACT) TO TIGHTEN CONTROLS ON LOCALLY PRODUCED BASIC COST OF LIVING ITEMS. PURPOSE WOULD BE TO DEFUSE ANTICIPATED DEMARCHE FROM ORGANIZED LABOR FOR PREMATURE WAGE INCREASE IN APRIL RATHER THAN IN JULY AS PROVIDED FOR IN EXISTING AGREEMENTS. IN PRESENT EXTREMITY BATTLE POSTPONED IS BATTLE WON.

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PAGE 03 THE HA 00273 181301Z

5. BALANCE OF PAYMENTS: GON IS RELATIVELY RELAZED ON BOP PROBLEM. PERFORMANCE SINCE 1971 HAS BEEN BETTER THAN ANTICIPATED AND RESERVES ARE HIGH. IMPORT PRICE INDEX IS EXPECTED TO RISE 15 PERCENT OR MORE IN 1974, INCLUDING 3 BILLION DOLLAR INCREASE FOR DOMESTICALLY CONSUMED PETROLEUM, BUT EXPORT PRICES SHOULD ALSO RISE APACE. IN NATURAL GAS EXPORT CONTRACTS WITH FRANCE AND BELGIUM, FOR EXAMPLE, THERE IS ESCALATOR CLAUSE PROVIDING FOR AUTOMATIC RISE IN

GAS PRICE UP TO 70 PERCENT OF RISE IN DUTCH HEAVY FUEL OIL PRICE. IN MORE IMPORTANT GAS AGREEMENTS WITH GERMANY RISE IS NOT AUTOMATIC BUT READILY NEGOTIABLE. DUTCH BELIEVE THAT OVER TWO OR THREE YEARS RISE IN GAS EXPORT PRICE WILL MORE THAN COMPENSATE FOR HIGHER CRUDE OIL COST. MAIN AREA OF CONCERN IS THAT RELATIVELY HIGH AND STRUCTURALLY INGRAINED DEPENDENCE OF MUCH DUTCH INDUSTRY ON LOW COST ENERGY WILL HURT DUTCH TRADE BALANCE OVER LONGER HAUL. FOR IMMEDIATE AND MEDIUM TERM FUTURE, HOWEVER, WE DO NOT EXPECT DUTCH TO RESORT TO EXTRA-ORDINARY PROTECTIVE MEASURES IN TRADE FILED. FOR ENERGY PRODUCTS IN PARTICULAR THEY CONTINUE TO SET HIGH STORE ON UNRESTRAINED FREE TRADE, AT LEAST WITHIN EC.

6. EMPLOYMENT POLICY: AS INDICATED ABOVE THIS IS PROBLEM NUMBER 2, JUST BEHIND INFLATION, AND HAS OBVIOUS POLITICAL IMPLICATIONS. THUS FAR, HOWEVER, IT IS MORE FEAR THAN REALITY. END-DECEMBER UNEMPLOYMENT (138,000) WAS ONLY SLIGHTLY ABOVE SEASONAL NORM. DEPRESSING EFFECT OF OIL CRISIS ON INVESTMENT DECISIONS AND OF OIL SHORTAGES ON GROSS OUTPUT WILL PROBABLY SWELL RANKS OF UNEMPLOYED LATER IN THE YEAR, BUT SOCIAL WELFARE SYSTEM, BUTTRESSED BY SUPPLEMENTARY FISCAL RESERVES REFERRED TO IN PARA 3 ABOVE, SHOULD KEEP PROBLEM WITHIN POLITICALLY TOLERABLE PROPORTIONS THROUGH NEXT SUMMER.
GOULD

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